

Message Text

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ACTION EUR-12

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AMEMBASSY COPENHAGEN
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TAGS: ECON, ETRD, FI

AUBJECT: FINNISH ECONOMIC STABILIZATION PROGRAM - EMBASSY COMMENTS

REF: A) HELSINKI 550; B) HELSINKI 570

1. SUMMARY. THE IMPACT OF THE IMPORT REDUCTION MEASURES IN THE GOVERNMENT'S DRAFT BILLS SUBMITTED TO PARLIAMENT MARCH 11 WILL BE A DIRECT FUNCTION OF THE LIST OF PRODUCTS AND RESPECTIVE DEPOSIT REQUIREMENTS STILL BEING DRAFTED, AND OF THE BANK OF FINLAND'S CREDIT POLICY. IF PARLIAMENT FAILS TO ACT IN TOW WEEKS, THE 15 PERCENT IMPORT FEE WILL BEGIN TO REALLY BITE. QUICK PARLIAMENTARY APPROVAL IS LESS CERTAIN THAN IT INITIALLY
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APPEARED. END SUMMARY.

2. THE GOVERNMENT'S PROPOSED TRADE BALANCING PACKAGE APPEARS TO BE DESIGNED TO REDUCE IMPORTS BY SQUEEZING THE IMPORTER'S PROFITS OR LINES OF CREDIT RATHER THAN BY DAMPENING AGGREGATE DEMAND VIA THE PRICE MECHANISM. THE "PRICE FREEZE" WILL APPARENTLY BE SOMEWHAT FLEXIBLE (AL ALL FINNISH PRICE CONTROLS TEND TO BE), AT LEAST IN RESPONSE TO RISING OVERSEAS COSTS OF IMPORTS. HOWEVER, THE INCREASED COSTS TO THE IMPORTER OF THE DEPOSIT SYSTEM WILL NOT BE RECOVERABLE THROUGH HIGHER RETAIL PRICES. THIS COULD MAKE IMPORTS UNPROFITABLE, DEPENDING ON CURRENT PROFIT MARGINS, BUT, EVEN FOR A PRODUCT ASSESSED THE MAXIMUM 30 PERCENT ASSUMING CREDIT WERE AVAILABLE AT CURRENT COMMERCIAL RATES (UP TO 12 1/2 PERCENT), THE NET COST OF FINANCING THE DEPOSIT SCHEME WOULD BE UNDER 2 PERCENT OF TOTAL TURNOVER. THIS ASSUMES THAT THE DEPOSITS IN THE SEVENTH MONTH WOULD BE SUBSTANTIALLY OFFSET BY THE RETURN OF THE DEPOSITS MADE ON THE FIRST MONTH'S IMPORTS. (THIRTY PERCENT OF ONE HALF OF THE ANNUAL VOLUME TIME 12 1/2 PERCENT INTEREST ON COMMERCIAL CREDIT). HOWEVER THE CRITICAL FACTOR WILL BE THE AVAILABILITY OF CREDIT, SINCE FEW IMPORTERS WILL BE ABLE TO RAISE THE ENTIRE DEPOSIT AMOUNT (UP TO 15 PERCENT OF ANNUAL VOLUME OF TRADE) FROM INTERNAL COMPANY SOURCES.

3. BANK OF FINLAND (CENTRAL BANK) HAS ALREADY ANNOUNCED NEW, STRICTER CREDIT CONTROLS, UNDER WHICH COMMERCIAL BANKS WILL BE ALMOST ENTIRELY UNABLE TO GET CREDIT FROM CENTRAL BANK BEYOND THEIR QUOTAS. PREVIOUSLY BANKS COULD GET UP TO 150 PERCENT OF THEIR QUOTA, ALBEIT AT PROGRESSIVELY HIGHER RATES OF INTEREST. IN EFFECT, NEW IMPORT DEPOSIT SCHEME WILL BE MADE EFFECTIVE BY BANK'S NEW POLICY OF SQUEEZING IMPORTERS' LINES OF CREDIT SEVERELY. BANK OF FINLAND GOVERNOR MAUNO KOIWISTO (SDP) CALLED ATTENTION TO CREDIT SQUEEZE WHEN COMMENTING ON GOVERNMENT'S NEW PROGRAM.

4. THERE HAS BEEN FOR SEVERAL MONTHS A REQUIREMENT THAT IMPORTERS OF CERTAIN GOODS, CHIEFLY CONSUMER GOODS, LIMITED OFFICIAL USE

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SHOW PROOF OF FULL PAYMENT TO SUPPLIER PRIOR TO CUSTOMS CLEARANCE. THIS WAS DESIGNED TO PREVENT IMPORTERS FROM USING FOREIGN COMMERCIAL CREDIT TO FINANCE IMPORTS, BUT THIS REQUIREMENT WAS ONLY marginally effective in discouraging imports and was easily offset by strong aggregate demand and rising prices. IT ALSO APPEARS THAT CIRCUMVENTION WAS NOT IMPOSSIBLE.

5. NEW PROGRAM IS LIKELY ALSO TO HURT SMALL IMPORTER AND/OR ENTREPRENEUR VIS-A-VIS LARGE, SINCE THE LATTER COULD INTERNALLY FINANCE AT LEAST SOME IMPORT DEPOSITS MORE EASILY, OR PERHAPS WITH LESS AGONY, THAN SMALL ENTREPRENEUR. IT MAY ALSO, IRONICALLY, BENEFIT FOREIGN COMPANIES WITH A LOCAL MARKETING OR ASSEMBLY ENTITY, SINCE FOREIGN COMPANIES WOULD BE MORE LIKELY TO BE ABLE TO MAKE DEPOSITS WITHOUT RECOURSE TO LOCAL CREDIT THAN A FULLY LOCAL FIRM, DEPENDING ON CAPITAL IMPORT CONTROL.

6. CENTRAL BANK HAS REGULATED CAPITAL IMPORTS, BOTH LONG AND SHORT TERM, AND WILL CONTINUE TO DO SO. PREVIOUSLY PRIMARY PURPOSE WAS TO MANAGE THE ECONOMY, AVOIDING DISRUPTIVE CAPITAL FLOW, AND TO GUIDE SCARCE FOREIGN CAPITAL TO ECONOMICALLY PRODUCTIVE USES. IT SHOULD NOT BE DIFFICULT TO ADMINISTER NEW GOALS WITH THE TOOLS AVAILABLE TO THE BANK.

7. MAJOR POTENTIAL THREAT TO RAPID IMPLEMENTATION OF PROGRAM ARE THE NON-COALITION PARTIES, WHO HAVE POINTEDLY REQUESTED "MORE DETAILS" (I.E. THE LIST OF PRODUCTS AND DEPOSIT PERCENTAGES). THE COMMUNISTS SUGGESTED ALSO EXCLUSION FROM DEPOSIT SCHEME OF BILATERAL CLEARING ACCOUNT TRADE WITH THE USSR AND CEMA COUNTRIES. THE GOVERNMENT HAS NOT ADDRESSED LATTER POINT DIRECTLY, AND COULD MANIPULATE DEPOSIT LIST TO EXCLUDE MAJOR PRODUCTS IMPORTED FROM THE EAST. PRESUMABLE ENERGY SOURCES, SUCH AS OIL AND COAL, WOULD BE ZERO DEPOSIT PRODUCTS REGARDLESS OF ORIGIN, ALTHOUGH IN FACT A MAJORITY COMES FROM THE USSR AND POLAND. GOVERNMENT'S BARGAINING POWER IN PARLIAMENT IS PROBABLY ENHANCED BY THE "TEMPORARY" FIFTEEN PERCENT IMPORT FEE, SINCE GOODS ENTERED INTO CUSTOMS NEED NOT BE CLEARED FOR FIFTEEN DAYS, ACCORDING TO LONGSTANDING LIMITED OFFICIAL USE

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RULES, AND THUS IMPORTERS ARE HOLDING OFF CLEARING GOODS WHICH ARRIVED IN CUSTOMS ON OR AFTER MARCH 12 IN THE HOPES THAT DEPOSIT SCHEME WILL BE PASSED, AND SUPERCEDE 15 PERCENT FEE. IF BILL NOT PASSED BY MARCH 27, THE FIFTEEN PERCENT FEE WILL BEGIN TO HAVE REAL EFFECT. MEANWHILE, PRESS REPORTS SOME FINNISH IMPORTERS HAVE CANCELLED OUTSTANDING ORDERS.

8. THE REMAINDER OF THE GOVERNMENT'S NINE POINTS CONSISTS OF GOALS AND INTENTIONS, AS WELL AS INVESTMENT DECISIONS LARGELY DEVELOPED AT THE TIME OF THE 1975 STATE BUDGET PREPARATION. THEY ARE OUTLINED IN REF. B. AUSTAD

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